

VZCZCXR09358

PP RUEHCN RUEHGH RUEHVC
DE RUEHIN #2326/01 2880846

ZNR UUUUU ZZH

P 150846Z OCT 07

FM AIT TAIPEI

TO RUEHC/SECSTATE WASHDC PRIORITY 7125

INFO RUEHOO/CHINA POSTS COLLECTIVE

RUCPDOC/DEPT OF COMMERCE WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 03 TAIPEI 002326

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STATE FOR EAP/TC

STATE PASS AIT/W, USTR FOR CHRIS WILSON, COMMERCE FOR 4430/ITA/MAC,
TREASURY FOR OASIA/TTYANG AND HAARSAGER

E.O. 12958: N/A

TAGS: ETRD ECON TW

SUBJECT: TAIWAN PHARMA: LITTLE DOMESTIC SUPPORT FOR PRICE REFORMS

Reftel: Taipei 2257

Summary

¶1. (SBU) Taiwan implemented its National Health Insurance (NHI) system in 1995, and its health-care system comprises six large public medical centers, 16 large privately-owned medical centers, and 417 regional and district hospitals. U.S. pharmaceutical manufacturers' current top reform priorities are changes to the Taiwan Bureau of National Health Insurance (BNHI) drug-reimbursement system that would require hospitals to use a standard purchasing contract for pharmaceuticals, actual transaction pricing (ATP) for all drug purchases, and the separation of drug dispensing and prescribing (SDP) so that hospitals have less incentive to drive down drug prices. Based on conversations with system stakeholders including doctors, hospital administrators, and NGOs, progress on each of these changes will likely be difficult because there is little domestic constituency for reform. Because Taiwan has no major international drug manufacturers, hospitals that rely heavily on profits from BNHI drug reimbursements, and consumers who are largely satisfied with the convenience and coverage of the current system, there is limited support for change. Progress on reform will therefore require continued U.S. engagement with Taiwan authorities and other key stakeholders. End summary.

Doctors Push More Funding...

¶2. (SBU) Taiwan's doctors advocate increased coverage for drugs, especially for chronic diseases such as diabetes and cancer. In a recent meeting with econoff, Dr. Delon Wu, top advisor to the privately-owned Chang-gung Hospital and a former hospital director, said that NHI's budget is too small to sustain the system, and that recent increases in premiums and co-payments are not covering rising NHI costs, especially for drugs. In order to maintain a comprehensive NHI, Wu believes that premiums must double, noting that Korea--whose level of economic development is comparable to Taiwan's--charges taxpayers twice as much per month. Dr. Lai Gi-ming, Director of the Office of Collaborative Medical Affairs at the National Health Research Institutes (NHRI), recently made the same point to econoff, lamenting that Taiwan's six-percent ratio of NHI expenditure to GDP compares poorly to Japan's 9.6 percent and Korea's 13 percent.

¶3. (SBU) Chang King-ren, President of the Chinese Oncology Society, gave econoff data from his research showing that spending on cancer-fighting drugs is only 0.4 percent of BNHI's budget. Chang-gung Hospital's Delon Wu agrees, complaining to econoff that due to insufficient budgets, BNHI sets limits on payments for drugs used to treat cancer, and that since such drugs are usually more expensive than other pharmaceuticals and are used over longer periods, BNHI under-serves cancer patients. Both doctors argue that

BNHI must increase premiums and reduce payments for non-chronic drugs in order to spend more on chronic-illness drugs.

...and Patients Agree

¶ 14. (SBU) Patients' rights groups agree with doctors that drug spending in Taiwan is too low, and call for increased funding for chronic-illness drugs such as those used for cancer and diabetes. Formosa Cancer Foundation advisor Dr. Hsieh Ruey-kuen recently told econoff many cancer drugs that physicians want to prescribe are not covered by the NHI and are therefore paid by patients themselves, a practice that is too costly for many patients and forces some to seek out cheaper but less effective treatments. Hsieh, a cancer specialist at Mackay Memorial Hospital, provided data from Mackay showing that 60 percent of its tumor patients are paying part or all of their drug costs, and said his contacts at Taipei Veterans and National Taiwan University Hospitals have told him that the rate at their hospitals is even higher.

¶ 15. (SBU) In an October 4 meeting with econoff, Ly-yun Chang, Chairwoman of Taiwan's largest NGO focusing on overall healthcare reform, the Taiwan Health Reform Foundation (THRF), said that THRF is also pushing for more NHI spending on cancer drugs. She pointed out that instead of allowing doctors to prescribe the most suitable treatment for individual cases of cancer, BNHI's reimbursement rules require cancer patients to start with so-called "first-level" chemotherapy, and if this treatment is not successful, NHI will pay for additional, "second-level" chemotherapy, likewise authorizing reimbursement for the more intense--and expensive--"third-level" treatments if the second-level chemotherapy proves ineffective.

Doctors, Hospitals Don't Support Major Reforms

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¶ 16. (SBU) However, doctors do not support specific reforms to NHI, including standard purchasing contracts, SDP, or other changes to the price-volume survey (PVS) methodology that BNHI uses to control drug reimbursement costs. Doctors, and the hospitals that employ them, are overly-dependent on revenues derived from the difference between the lower prices they have negotiated with drug companies and the higher amounts that BNHI reimburses for the same drugs--the source of the so-called "Black Hole" in Taiwan's pharmaceuticals budget. Hospitals in Taiwan do not disclose how much money they make from this gap, but Dr. Chi-chou Liao, Director General of the Taiwan Department of Health (DOH) Bureau of Pharmaceutical Affairs (BOPA), told econoff that large public and private hospitals in Taiwan such as Chang-gung and Taiwan University Hospital make about two-thirds of their profits from prescriptions, and the hospitals therefore oppose standardizing contracts or instituting ATP--both of which would shrink this price gap--as well as SDP, which would take away the bulk of their drug business by making patients fill prescriptions at non-hospital pharmacies.

¶ 17. (SBU) When econoff asked Chang-gung Hospital's Dr. Wu about the Black Hole, he agreed that hospitals rely heavily on income from drugs, but asserted that the problem is not that hospitals purposely generate profits through their pharmacies, but rather the local tradition that doctors charge not for visits, but for the drugs they prescribe. Doctors therefore prescribe drugs at almost every visit, while at the same time patients expect to be given drugs whenever they see a doctor--including for minor conditions like colds. He believes that the way to reduce the Black Hole in BNHI drug expenses is therefore not standard contracts, SDP, or ATP, but rather changing attitudes that encourage over-prescription.

¶ 18. (SBU) Even doctors who want to lower BNHI costs by reducing this price gap believe that BNHI's recent efforts to require hospitals to use standard contracts (reftel) will not be effective, even if adopted by all major hospitals. A local medical contact told us that if drug makers use standard contracts to secure more favorable prices from hospitals on individual drugs, hospitals will erect bureaucratic obstacles to dissuade their doctors from prescribing these now less-profitable drugs, a criticism that BOPA's Dr. Liao

recently echoed to econoff.

Patient Rights Group Agrees on Contracts, Pushes Other Reforms...

¶9. (SBU) THRF Chairwoman Chang also cast doubts on the effectiveness of standard contracts. She said that while THRF does not oppose requiring hospitals to use a standard contract, she alleged that Taiwan's hospitals commonly keep two books to hide how much they actually pay for drugs, and that requiring standardized contracts will therefore not force hospitals to reveal their true spending. She also reasons that since Taiwan's hospitals have too much market power, they will still be able to squeeze drug makers for lower prices. Chang said that pushing for standard contracts is not, therefore, a priority for the Foundation.

¶10. (SBU) THRF does support SDP, however. Currently, due to hospitals' reluctance to release prescriptions to patients as well as varying and confusing prescription formats, hospitals effectively monopolize drug dispensing. Chang believes that standardizing prescription formats and requiring hospitals to release all refillable and chronic-disease prescriptions to patients would both encourage patients to use local pharmacies and enable local pharmacists to better understand and meet patients' prescription needs. THRF is aware that while some small pharmacies may not be able to carry as wide a selection of drugs as large hospitals--and likewise won't have the sales volume to enable them to compete on price for some drugs--they believe that it is an essential first step toward overcoming the Black Hole problem. Despite hospital opposition, Chang is also optimistic that SDP could happen in the near future, noting to econoff that while DOH and BNHI officials would never "dare" to mention SDP six years ago out of fear of a backlash from hospitals, both are starting to explore ways to implement at least partial SDP.

¶11. (SBU) THRF is also pushing for pharmacies to print detailed descriptions of prescribed drugs, their effects, and the cost to both the patient directly on labels or packaging of prescribed pharmaceuticals. Chang thinks that such labels would be the most efficient way to promote both safe drug use and price transparency.

...But Has Little Political Influence

¶12. (SBU) However, Chang lamented that, compared to Taiwan's various doctor and hospital associations, THRF has almost no influence with

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the Legislative Yuan (LY). She also noted that the general public is satisfied with the convenience, coverage, and low out-of-pocket costs of the current system. The average citizen is therefore not concerned about drug-pricing issues, and since patients prefer to get their drugs directly from the hospital pharmacies, many are not in the habit of asking for copies of their prescriptions to use for refills at local pharmacies. According to a THRF survey done in 2004-2005, 80 percent of patients polled were satisfied with the current drug-dispensing situation. Patients, therefore, are not putting pressure on the LY or BNHI to push hospitals to give up their drug-dispensing functions.

Comment

¶13. (SBU) Doctors in Taiwan--and the hospitals that they work for--form the most powerful domestic medical interest group, and since they do not support the reforms advocated by foreign original-drug manufacturers, progress toward such reforms will require sustained U.S. engagement with Taiwan authorities and major stakeholders. End comment.